Table of Contents

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Khalid S. Soliman
International Business Information Management Association,
USA

Audit Committee Characteristics and Firm Financial Performance in Nigeria: An Empirical Analysis

Ojeka Stephen Aanu *(Corresponding Author)***,** Department of Accounting, Covenant University,
Ota, Ogun State, Nigeria, Tel: +234-7039528774
E-mail: stephen.ojeka@covenantuniversity.edu.ng, stojeka@yahoo.com

Iyoha, Francis Odianonsen, Department of Accounting, Covenant University,
Ota, Ogun State, Nigeria, Tel: +234-8033515869
E-mail: iyoha.francis@covenantuniversity.edu.ng, iyohafrancis@yahoo.co.uk

Obigbemi Imoleayo Foyeke, Department of Accounting, Covenant University,
Ota, Ogun State, Nigeria, Tel: +234-8035939951
E-mail: imole.obigbemi@covenantuniversity.edu.ng, ayosalako2004@yahoo.com

Abstract

Audit Committee plays a crucial role in protecting the interests of shareholders and other stakeholders. This research study explores the relationship between audit committee characteristics and firm's performance using four characteristics: independence, financial expertise, size and meetings of the audit committee. The performance measures were Return on Equity (ROE), Return on Asset (ROA) and Return on Capital Employed (ROCE). Twenty- five (25) manufacturing firms were selected and from which data were collected for the period (2004-2011). Empirical analysis was carried out using regression and correlation. The result of the analysis showed a positive significant relationship between independence and financial expertise of the audit committee and ROA, ROE and ROCE. However, the size and meetings of audit committee showed no significant relationship with all performance variables. This study therefore recommends that the audit committee should be made more effective by ensuring that members are made up of independent non-executive directors and also ensure that more members with financial expertise especially accounting expertise be drafted into the audit committee and lastly ensure that audit committee meetings are tailored towards relevant issues that enhance financial performance of the firm.

Keywords: Audit Committee Characteristics, Financial Performance, Nigeria

JEL Classifications: M40; M41; M42

1.0 Introduction

There have been massive fraud and unethical practices within and among a number of organizations in Nigeria including Unilever Plc. As observed by Quadri (2010), the recent insider trading, massive and prevalent frauds, mandatory retirement of CEOs of banks, due to corrupt practices and inefficient rubber-stamped board, have combined to signal the absence of or failure of existing corporate governance structure. He further noted that the Companies and Allied Matters Act (CAMA) which was enacted to regulate and balance the relationship among the board, shareholders and the management including other stakeholders, has failed woefully due to inadequate enforcement capacity.

The events had serious devastating effect on stakeholders in terms of losses in their investments. The events also resulted in the loss of hundreds of jobs especially in the manufacturing sector and drastic drop in the share prices of most listed companies on the Nigerian Stock Exchange Market. The shock to the stakeholders and the public led to the yet unanswered question of 'how' such event could have happened when companies were declaring billions of Naira in profit. Therefore, the trust which